

Businessmen and "That Creature" the Corporation

Names like James J. Hill, Andrew Carnegie, Cornelius Vanderbilt, and John D. Rockefeller have struck terror in the hearts of many, yet these same names have inspired millions of other Americans. Between 1870 and 1900, the United States became a world industrial power, in part, because of the trailblazing business practices of these individuals. Were these early industrialists "Robber Barons" or "Captains of Industry?" What about "that creature" the corporation and its monopolistic cousin, the trust? The debate over whether the business practices of the Gilded Age were corrupt or beneficial rages on even to this day. Even in our own times, corporate mergers, mass layoffs, deregulation, and Enron remind us that the line between corruption and progress is indeed a fine one.

Some questions to keep in mind:

1. Who were some of the "new" businessmen of the era and how did they operate? Is it best to refer to them as "Robber Barons" or "Captains of Industry"? Why or why not?
 2. What was the corporation revolution? How did it transform the American economy?
 3. In your opinion, did Gilded Age businessmen make the United States better or worse? Why?
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The Gilded Age was a time of economic transformation in the United States. Immediately following the Civil War, America's industrial output paled in comparison to the mighty industrial powers of Western Europe, especially Great Britain. However, by 1900, only Great Britain's industrial production exceeded the total industrial production of the United States. Two major factors precipitated the rise of industry:

- New Businessmen
 - New Ways of Doing Business
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New Businessmen

Historians often describe nineteenth-century businessmen in two contradictory ways:

- "Captains of Industry"--some scholars describe nineteenth-century industrialists as ingenious and industrious capitalists who transformed the American economy with their business acumen. These

"Captains" were the folk heroes of their day; faces of men like Andrew Carnegie would have graced the boxes of Gilded Age Wheaties® rather than Olympic gold medal winners. These men seemed to embody the American dream of "Rags to Riches."

- "Robber Barons"--other historians have viewed the Gilded Age industrialists as immoral, greedy, and corrupt, and have mustered ample the evidence to support such a view. Bribery, illegal business practices, and cruelty to workers were not uncommon during this period, and many of the most respected industrialists were also feared and hated.

The Erie Railroad Wars of the 1860s provide an example of the unscrupulous and often illegal business activities that transformed the nation during the Gilded Age. The "Wars" involved four men:

- Daniel Drew
- Jay Gould
- Jim Fisk
- Cornelius Vanderbilt

Daniel Drew

(1797-1879), financier. Born in Carmel, New York, Drew served briefly in the War of 1812 before beginning a livestock business, driving cattle and horses to New York City from upstate, and later from as far away as Illinois. He quickly acquired a reputation for sharp dealing and was known to feed salt to his cattle and then let them drink themselves full in order to increase their weight; this practice became known as "stock watering" and Drew was its master. In 1857, Drew became director and treasurer of the Erie Railroad line. A shrewd man, Drew used "watered stock" and other tools to try and squeeze every possible dollar out of the railroad and into his own coffers.

Jay Gould

(1836-1892), financier. Gould grew up in relative poverty and received little formal education. Nonetheless, he possessed a quick mind and had few scruples, and searched for opportunities to make money. His earnings from three years as a surveyor, and from the publication of his *History of Delaware County, and Border Wars of New York* in 1856, enabled him to open a tannery in Pennsylvania. By 1860, he had begun speculating in railroad securities and became a director of the Erie Railroad in 1867. Gould, working with co-directors Jim Fisk and Daniel Drew, combined "stock watering" and bribes to New York City's "Boss" William M. Tweed as well as state legislators, profited handsomely from the Erie Railroad Wars. In 1872, Gould turned to Western railroads, where he eventually assembled an empire that consisted of half the track mileage in the Southwest. A prototype of the "robber baron" capitalist, Gould remained ruthless, unscrupulous, and friendless to the end.

Jim Fisk

(1834-1872), financier. Fisk received little schooling and in his youth held a variety of jobs from waiter to ticket agent for a circus. Fisk earned the title of "Barnum of Wall Street" for his flamboyant trading techniques. With the proceeds gained from his Wall Street endeavors, Fisk led the life of a sybarite, developing tastes for French theatricals, Broadway showgirls, expensive horses, and honorary but gaudy military posts. After becoming almost the epitome of the "robber baron," he continued his career as a voluptuary-about-town until, following a quarrel over certain business matters and a favorite mistress, the actress Josie Mansfield, he was shot by Edward S. Stokes on January 6, 1872.



*Cornelius Vanderbilt (1794-1877),
financier and industrialist*

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Cornelius Vanderbilt

(1794-1877), financier. At sixteen Vanderbilt purchased a small sailboat with money he had borrowed from his parents and began to carry passengers between Staten Island and New York City. The government authorized him to transport provisions to regiments around the city during the War of 1812 and he soon established a small fleet engaged in river and coastal trade. Vanderbilt formed his own steamboat company in 1829. To the dismay of the established shipping firms on the Hudson River, he charged lower fares than his competitors and quickly dominated the business. By 1846, "Commodore" Vanderbilt had become a millionaire.

Vanderbilt began purchasing stock in the New York and Harlem Railroad in 1862, and, by 1863, he controlled the line and used it to initiate New York streetcar service. He then battled Daniel Drew for control of the Hudson River Railroad. The two men again clashed over the New York Central Railroad, although Vanderbilt emerged victorious from the struggle and merged the New York Central with the Hudson River Railroad in 1869. Vanderbilt's acquisition of the Lake Shore and Michigan Southern Railroad completed the first New York-to-Chicago rail system. In every case, he made large capital investments in improved roads, rolling stock, and facilities. By ordering construction of Grand Central Terminal in New York City, he provided jobs to thousands of unemployed workers during the Panic of 1873. Historians estimate that Vanderbilt was worth \$100 million by the time of his death on January 4, 1877.

The Erie Railroad Wars

Began when Cornelius Vanderbilt began buying shares in the Erie Railroad Co. in an attempt to drive his only competition out of business. The treasurer of the Erie Railroad Co., Daniel Drew, saw an opportunity to swindle Vanderbilt out of millions of dollars. Drew, along with Jay Gould and Jim Fisk, printed up 100,000 worthless stock certificates, which Vanderbilt promptly bought, although he soon realized the stocks had no value. Although Vanderbilt had once said, "Law, what do I care about the law? Ain't I got the power?" he appeal to government authorities to arrest Fisk, Gould, and Drew.

Fisk, Gould, and Drew, hearing of their impending arrest, took a short vacation to New Jersey where the laws of New York, fortunately for them, did not apply to their situation. Fisk made a public statement claiming that their trip to New Jersey had been prompted by a desire to do better business. Meanwhile, Gould "encouraged" some members of the New York state legislature to pass a law making the sale of watered stock to Vanderbilt legal (a half million

dollars made the "encouragement" all that much the easier). The result was that Drew, Fisk, and Gould ended up \$7 million richer while Vanderbilt appeared to the public as a monopolistic power-monger

New Ways of Doing Business

Although American businessmen had always strived to make money, the Gilded Age saw the rise of new methods of capitalism that allowed individuals to limit their liability and maximize their profits.

"Before the Gilded Age, individuals had looted society. But the most characteristic economic institution of the Gilded Age no longer was the individual. Instead it was a collection of individuals together called *the corporation*" (Professor Schultz, videotape lecture #5).

The Corporation Revolution

1. Key features of corporations
2. What was a corporation?
3. Corporations in the past
4. Combination of corporations

Key features of corporations

One of the key features of corporations and the Gilded Age, in general, was an increasing concentration of power in large entities. Business and government became bigger while their respective operations became intertwined. Ever since the federal government had used its power and money to encourage businessmen to build railroads, all levels of government had become more involved in the nation's economic welfare.

What was a corporation?

A corporation was formed when a group of people requested a charter from the state legislature that provided them with a set of legal rights and (presumably) responsibilities. State law treated the corporation as an individual. Unlike a partnership, in which liability ran high for individual investors, the corporation involved **limited liability**. Limited liability makes individual investors legally liable only for their share of the investment. In partnerships, if a partner skips town or dies, the other partners are liable for any outstanding debts. In corporations, if an individual investor dies no other investors are affected. If the corporation goes bankrupt, the law only required investors to foot the bill for a percentage corresponding to the proportion of their investment. As corporations became more common in the mid-nineteenth century, the opportunity for wide numbers of people to invest in business greatly expanded, for individual investors could now invest without the fear of total liability. Another important result of the corporation revolution was that corporations became "immortal." Most state laws allowed corporations to buy, sell, and inherit property; thus, they took on their own identity. Individual investors may come and go, but the corporation has an indefinite lifespan.

Corporations in the past

Corporations were not a new invention of the Gilded Age. The first American colonies were the result of corporate activity. Corporations began to crop up well before the Civil War. By the 1850s, however, American businessmen began using corporations in new ways. After the Civil War, ownership of a corporation no longer meant control of the corporation. Whereas prior to the Civil War investors had retained a great deal of power over the means of production, the new concept of corporations allowed managers and directors to make money, while investors reaped

only the benefits of limited dividends. This new management structure allowed a handful of corporate directors to profit enormously from other people's money with little personal risk.

Combinations of corporations

One of the most salient characteristics of the Gilded Age was the continual combination of corporations. Small corporations began to merge with one another to increase efficiency and profits. Americans soon knew these new "mega corporations" as **trusts**. In such trusts, a small board of trustees managed the means of production and distribution. Though trusts were certainly larger, more efficient, and more profitable than smaller corporations, they also destroyed the healthy competition that often makes capitalism a viable economic model.

Standard Oil of New Jersey

In 1879, John D. Rockefeller and a handful of associates founded Standard Oil of New Jersey, the prototypical example of corporate consolidation and efficiency. Rockefeller was so successful that at his death, his personal fortune was estimated at \$815,647,796.89, not to mention the \$40 million in profits that the Standard Oil trust averaged every year. However, his methods of persuading small companies to join his trust were often less admirable than we might expect of an American folk hero. Although Rockefeller often gained control by purchasing smaller companies in public, he also seized power privately or through proxy to hide the fact that his behemoth trust would soon destroy the smaller company. Moreover, if buying stock proved too arduous, Rockefeller sometimes hired armed Pinkerton Agents to "persuade" his competition to relinquish control. The Pinkerton Agents were famed for their club-wielding ability, and many a small business owner became familiar with the wrong end of those clubs.



*John D. Rockefeller (1839-1937),
industrialist and philanthropist*

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The new businessmen and the new methods of doing business that became prominent during the Gilded Age were not always shining examples of morality and democracy. As the Gilded Age wore on, Americans began to realize the social problems that went hand-in-hand with untrammelled business growth. The federal government passed the first federal law to slow the growth of trusts in 1890. The Sherman Antitrust Act, however, remained little more than a token law, and federal officials rarely invoked it until after WWI. A more important sign of the growing disillusionment with Gilded Age political and business corruption came from the American people, themselves. Although many Americans still regarded men like John D. Rockefeller as "Captains of Industry," more and more people began to question the tactics of "Robber Barons." As trusts grew ever more powerful and wealth became concentrated in fewer hands, public animosity increased towards the businessmen. The story of this growing

animosity, which is an incredibly fascinating aspect of American history, just happens to be the topic of the next lecture: [Lecture #06: The Social Philosophy of American Businessmen.](#)